



FAO Stuart Cook  
Ofgem  
9 Millbank  
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SW1P 3GE

17<sup>th</sup> November 2010

Dear Stuart,

**Project Transmit: A Call for Evidence**

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. In March 2009, Drax acquired an electricity supply business, Haven Power Limited ("Haven"); Haven supplies some 30,000 business customers and provides an alternative route to market for some of Drax's power output.

Project Transmit aims to review (and, if required, amend) GB charging and connection arrangements in order to ensure that they deliver a regime that is conducive to Government's energy policy objectives, promotes investment in renewables, ensures security of supply and delivers value to end consumers. Drax welcomes this review of the charging and connection regime; it is both timely and appropriate to review such arrangements.

Charging Arrangements

Drax continues to support charging work-streams that aim to deliver stable, predictable and transparent charging principles. It is timely to review the current charging principles to ensure that they remain fit for purpose, given the change in energy policy over recent years and the expected increase in generation and transmission investment over the coming decade.

Drax supports a review that covers all aspects of the charging regime, including potentially contentious subjects such as transmission charging, balancing charging and transmission losses. However, it is important that the review takes into account, and seeks to protect, the outcomes of work recently completed in this area, such as the work by DECC to develop and implement an *enduring* transmission access and constraint charging regime.

The objective set out in the Call for Evidence document appears both appropriate and sensible. However, the statement describes an extremely wide objective, which may make it difficult to judge the success of the review and the appropriateness of changes to the charging and connection regimes. In light of responses received to the Call for Evidence, it would be useful if Ofgem added a further report to the timetable in early 2011 that provided greater clarity on the specific issues and obstacles that the review aims to address.

Project Transmit must take account of Government policy and the investment (in a wide range of technologies) required to deliver such policy. Further to this, the project must consider, and ensure that any outcomes do not work counter to, the Government's Energy Market Reform (EMR) project. It is important that the review takes into account developments in the EMR project as it progresses.

Drax believes that there are issues surrounding transmission charging that should be prioritised as part of Project Transmit. An important part of the review should be the consideration of whether the current generation and demand split for transmission charging (currently 27% and 73% respectively) remains

appropriate. In particular, focus should be placed on the differences in transmission charging between GB and other EU Member States.

A recent change to transmission charging for interconnector users (i.e. the removal of transmission access charges by declassifying them as generation and / or demand users) means that generation delivered to the GB transmission system via interconnectors is not exposed to the same transmission charges as generation that is produced and delivered by plant within GB. This effectively places GB-based generators at a competitive disadvantage to those delivering generation via an interconnector.

Given that EU Member States are moving increasingly towards a single European market (initially via smaller Regional Market Initiatives), it is crucial that the review considers the competition implications of differing European charging regimes. It is essential that any changes to the charging regime promote competition on both a GB and European level.

Drax believes that variances in transmission charging can be better handled by demand-side market participants than their generation counterparts. As such, we believe that the possibility of moving to an alternative model where demand recovers 100% of transmission costs should feature within the scope of Project Transmit. Investors in generation require a predictable transmission charging methodology; moving to a regime that recovers 100% of transmission revenue from demand would help deliver such stability. It is recognised that careful thought would be required with regards to the transition arrangements, in order to ensure businesses with existing contracts are not disadvantaged by the reallocation of costs.

Continuing the theme of stability, Drax considered the recent mid-year TNUoS change, undertaken by National Grid, most unwelcome; it appears that this sentiment was shared by a large proportion of the generation community. Drax understands that the change was largely due to the introduction of the new offshore transmission arrangements. Such amendments to transmission charging should only occur in exceptional circumstances and should not become the norm. This is a further issue that could be avoided in the future by adopting a demand-led transmission charging regime, as described in the previous paragraph.

Drax continues to support a transmission charging regime that is technology neutral. In addition, Drax believes that generators should be able to compete within the wholesale electricity market on the same basis regardless of how a generator is physically connected. As such, embedded generation should be included as part of a holistic charging review, in order to examine the competition implications of the current regime. National Grid recently set out to undertake work on this subject, although the work has now been placed on hold pending the scope of Project Transmit; this work should continue as a part of the project's scope.

### Connection Arrangements

Including connection arrangements, and the associated charging methodologies, within the Project Transmit work-stream would ensure a holistic review of charging. However, it should be noted that there has been an exceptionally high volume of work on this subject in recent years. Any review of connection arrangements and the associated charging methodologies should take the following into account:

- Any new work-stream must consider the work that has already been completed in this area (including the DECC work-stream that delivered an *enduring* transmission access regime and defined the associated constraint charging principles);
- New work-streams should help to advance the recently introduced regime, not replace it (i.e. evolutionary steps);
- The principle of any reform should be to make connection arrangements less complicated and to keep user connection timescales to a minimum;
- Investment in the wider transmission network must not be delayed whilst Project Transmit progresses; and

- It is critical that there is a timely resolution to work that takes place surrounding connection arrangements and the associated charging methodologies, given the potential for a lengthy review to further delay investment.

Drax believes that the recent changes to connection arrangements, such as those that have occurred as a result of the Government's Grid Access Review work-stream and National Grid's review of the Final Sums securitisation regime, have resulted in a set of connection arrangements that ensures fair treatment to all users. Given the excellent progress that has been made to connection arrangements recently, it would be unfortunate if this work was undone by a constant process of review and reform (delaying much needed generation and transmission investment). Ofgem should be careful not to introduce further regulatory uncertainty to this area.

### Other Considerations

#### *Licence and Industry Code Objectives*

The review must consider the effects of current licence and industry code objectives on the industry's ability to meet wider policy objectives. There continues to be a disjoint between the objectives placed on National Grid and the statutory duties of Ofgem. Whilst Ofgem is unable to change its statutory duties, it can better align licence objectives with its own duties or recommend that Government takes action to introduce more consistent statutory duties and licence objectives.

It is essential that all parties, including the industry regulator, aim to meet similar objectives that are based upon the wider policy aims set by Government.

#### *Initial Scope*

The Government is currently undertaking a review of wholesale market arrangements via the EMR project, which has the potential to significantly change wholesale market arrangements and, thereby, the associated charging principles. Whilst we support the premise of Project Transmit, it is important that the review remains mindful of the Government's EMR project and that the boundaries of each work-stream are clearly defined.

It is understood that DECC have communicated the boundaries of the charging review's scope to Ofgem; it would be beneficial to all parties if the boundaries of scope were published in order to provide transparency of process and to ensure industry work-streams and responses remain within such boundaries, thereby avoiding a waste of industry time and resource.

#### *Process*

The industry remains unsure as to what will happen once Ofgem publishes the findings of Project Transmit in summer 2011, should Ofgem believe that change is required. Will there be a Significant Code Review, modification to National Grid's licence conditions to deliver prescribed outcomes, or an invite to industry to develop industry code modifications? It would be useful if Ofgem could provide greater detail on the project's timeline and the opportunities for industry to contribute to the process.

Finally, whilst it is essential that the review of charging and connection arrangements is robust, the review should have some clear milestones in order to ensure the work-stream maintains pace and delivers outcomes in a timely manner. It is critical that the review does not become an additional ongoing uncertainty that leads to a potential hiatus in investment, with investors delaying decisions until the outcome of the project is known.

Drax looks forward to viewing both Ofgem's and industry participants' responses to this Call for Evidence. In the meantime, if you would like to discuss any of the views expressed in this response, please feel free to contact me.

Yours sincerely,

By email

Stuart Cotten

Regulation  
Drax Power Limited